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IN THE MATTER OF THE DEALER §
REGISTRATION OF MASTERWORKS §
ADMINISTRATIVE SERVICES, LLC §

Order No. REG-24-CAF-04

TO: Scott W. Lynn, CEO
Masterworks Administrative Services, LLC
225 Liberty Street 29th Floor
New York, NY 10281

CONSENT ORDER

Be it remembered that Masterworks Administrative Services, LLC ("Respondent") appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and consented to the entry of this order ("Order") and the Findings of Fact and Conclusions of Law contained herein.

FINDINGS OF FACT

1. Respondent has waived (a) Respondent's right to notice and hearing in this matter; (b) Respondent's right to appear and present evidence in this matter; (c) Respondent's right to appeal this Order; and (d) all other procedural rights granted to the Respondent by The Securities Act, Tex. Gov't Code §§ 4001.001-4008.105 ("Texas Securities Act"), and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001.001-2001.903.
2. In or around April 2023, Respondent initiated its application for registration with the Securities Commissioner as a dealer.
3. Respondent is a wholly owned subsidiary of Masterworks, LLC—a financial services company ("Company") that specializes in the art investment market using a proprietary online investment platform ("Platform")¹.
4. The Company purchases pieces of art ("Artwork") vetted by their research team and forms a limited liability company ("LLC") for each Artwork acquired to facilitate an investment in the Artwork.

¹ Through the Platform, investors can learn about artwork as an investment option, provide information to the Company to determine whether the investor is qualified to invest in an offering, obtain information about offerings, indicate interest in participating in offerings, and execute documents electronically to invest directly in offerings that have been qualified by the SEC.

5. The Company then offers qualified investors² fractionalized investments³ in the Artwork through the sale of shares in each respective LLC.
6. If and when the Artwork is sold, the resulting proceeds are distributed to the respective investors of the LLC according to the equity capitalization table.
7. Respondent's role includes operating the Platform and providing management services relating to the business and maintenance of the Company and Artwork investments⁴.
8. Historically, the Company offered shares in the LLCs with registered broker-dealers acting as best-efforts underwriters. However, in or around January 2023, the Company transitioned to a new model whereby recommendations regarding the purchase of the LLC shares were made by registered investment advisers.

Respondent's Artwork Investments as Federal Covered Securities

9. The LLC for each Artwork is filed as a public offering with the United States Securities and Exchange Commission ("SEC"), and after review and qualification by the SEC, shares of each Artwork are then made available for purchase by the public through the Platform pursuant to the federal Regulation A Tier 2 offering exemption⁵.
10. Users of the Platform can then purchase, and trade via a secondary market, the LLC shares in the Artwork.
11. Relying on the shares' status as federal covered securities, Respondent made the shares available for investment by Texas residents through the Platform.
12. Notably, the securities registration requirements of the Texas Securities Act are not applicable to federal covered securities. As federal covered securities, the shares would not be subject to review and approval in Texas.

Unregistered Activity

13. Section 4001.056 of the Texas Securities Act, which defines a "dealer" in Texas, provides that any issuer of securities, other than a registered dealer, who directly offers for sale or sells its own securities in Texas shall be deemed a dealer and shall be required to comply with applicable dealer registration provisions.

² A qualified investor is either an accredited investor as defined by 17 C.F.R. § 230.501 or the aggregate purchase price to be paid by the purchaser for the securities is no more than ten percent of the greater of such purchaser's: (1) Annual income or net worth if a natural person; or (2) Revenue or net assets for such purchaser's most recently completed fiscal year end if a non-natural person. 17 C.F.R. § 230.251(d)(2)(i)(C)(1-2).

³ The investments have a unitary fee structure to account for ordinary and necessary expenses related to, among other things, the organization and maintenance of each LLC, and the sourcing of the Artwork. As compensation for its services, Respondent receives an annual equity-based management fee, a profit share at artwork resale, and an up-front, one-time case expense allocation.

⁴ Respondent performs all necessary services to maintain the Artwork, including obtaining insurance and ensuring appropriate storage, and management services, including professional services, regulatory filings, SEC reporting, and tax filings.

⁵ 17 C.F.R. § 230.251 et seq.

14. From January 1, 2023 through December 31, 2023 (the "Relevant Period"), Respondent sold securities to Texas residents totaling nearly \$19,000,000.
15. However, Respondent was not registered with the Securities Commissioner as a dealer during the Relevant Period.
16. In addition, as a consequence of the omission of a registered dealer, approximately \$15,000,000 of securities of the Respondent were not properly notice filed with the Securities Commissioner as required by section 114.4(b)(5) of the Rules and Regulations of the Texas State Securities Board (the "Board Rules") which requires dealers to provide a notice filing of the Regulation A Tier 2 offering to the Securities Commissioner prior to the initial offer of the securities in Texas.

Mitigating Factors

17. Respondent did not receive any selling commission in connection with the sales of the shares of Artwork in Texas.
18. Respondent's sales of the shares of Artwork to Texas residents during the Relevant Period have resulted in no known direct consumer harm.
19. Respondent has implemented corrective measures to avoid a future lapse in its registration as a dealer.

CONCLUSIONS OF LAW

1. Respondent was required by Section 4004.051 of the Texas Securities Act to register as a dealer with the Securities Commissioner in connection with sales of securities in Texas by its affiliates.
2. Accordingly, Respondent violated Section 4004.051 of the Texas Securities Act by selling securities in Texas during a time when Respondent was not registered as a dealer with the Securities Commissioner.
3. Respondent was required by Board Rule 114.4(b)(5) to properly notice file its Regulation A Tier 2 federal covered securities offerings with the Securities Commissioner.
4. Accordingly, Respondent violated Board Rule 114.4(b)(5) by failing to properly notice file its Regulation A Tier 2 federal covered securities offerings with the Securities Commissioner.
5. Pursuant to Sections 4007.105(a)(13)(A–B) of the Texas Securities Act, the aforementioned violations of Section 4004.051 of the Texas Securities Act and Board Rule 114.4(b)(5) constitute bases for the issuance of an Order reprimanding Respondent.

6. Pursuant to Section 4007.106(a)(3) of the Texas Securities Act, Respondent's aforementioned violations of Section 4004.051 of the Texas Securities Act and Board Rule 114.4(b)(5) constitute bases for the assessment of an administrative fine against Respondent.

UNDERTAKING

1. Respondent undertakes and agrees that Respondent will comply with section 114.4 of the Board Rules by properly notice filing and paying any associated fees⁶ for all of Respondent's Regulation A Tier 2 offerings that remain qualified and have not already been properly notice filed with the Securities Commissioner within thirty (30) days that this Order is entered into by the Securities Commissioner.
2. Respondent further undertakes and agrees that Respondent will comply with section 114.4(c) of the Board Rules and submit to the Securities Commissioner reports for any offerings that are currently properly notice filed or will be properly notice filed in accordance with paragraph 1 of this Undertaking within fifteen (15) calendar days of the calendar quarter end.

ORDER

1. It is therefore ORDERED that the application for registration as a dealer with the Securities Commissioner is hereby APPROVED.
2. It is further ORDERED that Masterworks Administrative Services, LLC is hereby REPRIMANDED.
3. It is further ORDERED that Masterworks Administrative Services, LLC shall pay an ADMINISTRATIVE FINE in the amount of one hundred fifty thousand dollars (\$150,000.00). Payment shall be made by wire to the Securities Commissioner within fifteen (15) days of the entry of this Order in the amount of one hundred fifty thousand dollars (\$150,000.00), payable to the State of Texas.
4. It is further ORDERED that Masterworks Administrative Services, LLC COMPLY with the terms of the Undertaking contained herein.

⁶ Section 114.4(d)(1-2) of the Board Rules requires excess sales fees to be paid to the Securities Commissioner for securities sold in this state in excess of the amount of federal covered securities authorized for authorizations still in effect and no longer in effect.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 17th day of June, 2024.



TRAVIS J. ILES
Securities Commissioner

Respondent:



Masterworks Administrative Services,
LLC

By: Scott W. Lynn,
CEO

Approved as to Form:



Cristi Ochoa,
Deputy Securities Commissioner



Kurt L. Gottschall,
Haynes and Boone, LLP
Attorney for Respondent



Nadda Rungruangphol,
Attorney
Registration Division